

**MONTGOMERY WARD**  
**Sixty-Sixth Annual Report**  
**Twelve Months Ended**  
**January 31**  
**1938**

BOARDS

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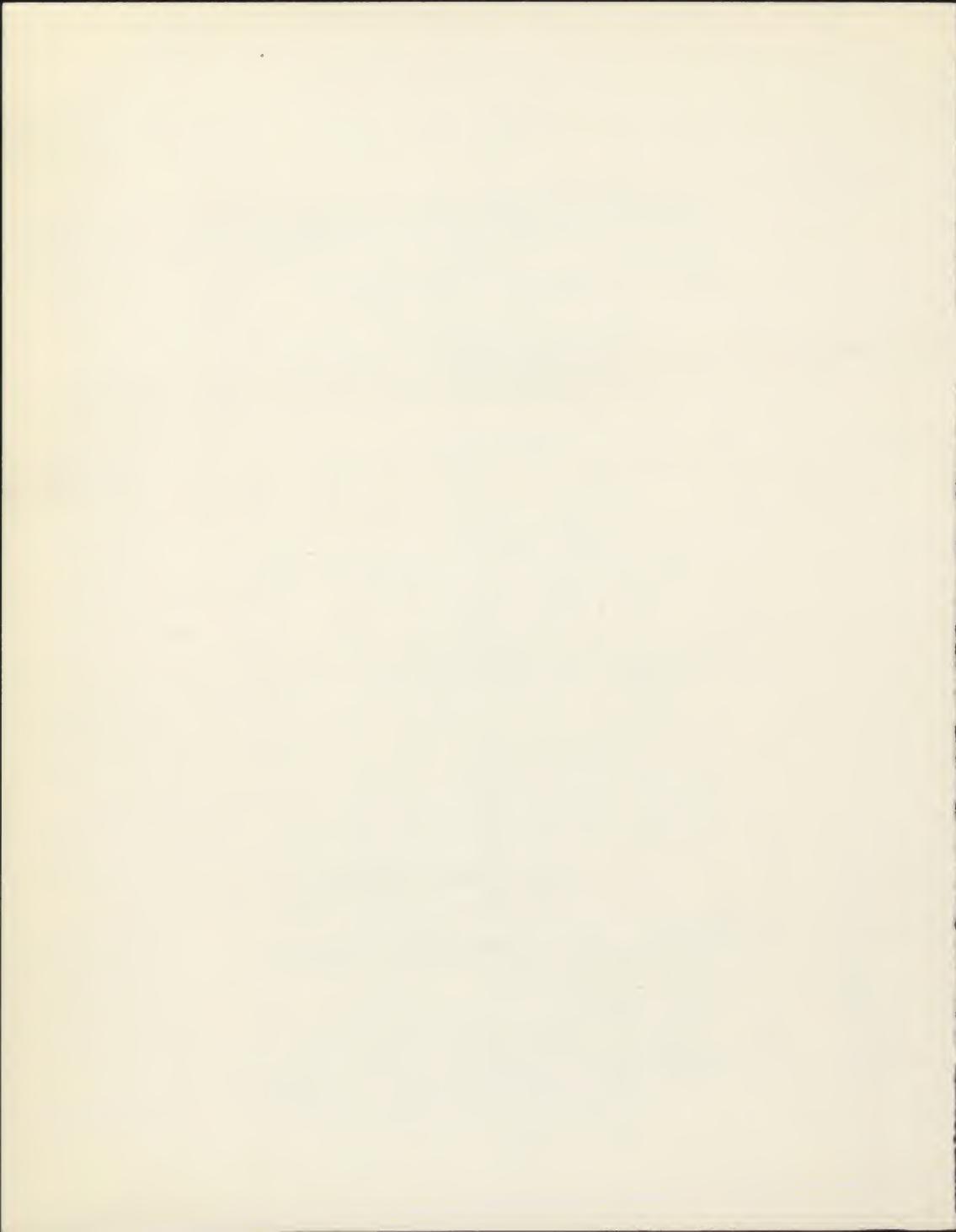
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MONTGOMERY WARD & CO.  
INCORPORATED  
(AN ILLINOIS CORPORATION)

*Sixty-Sixth Annual Report*

*Twelve Months Ended January 31, 1938*



Chicago, March 18, 1938

*To the Stockholders of  
Montgomery Ward & Co.:*

Net profit for the year ending January 31, 1938, before deducting the Federal tax on undistributed earnings, was \$20,860,029, as compared with \$20,598,914 for the previous year. After deducting the tax on undistributed earnings of \$1,650,000, the 1937 net profit was \$19,210,029, or \$3.41 per share of common stock. For the previous year, after deducting a Federal surtax of \$400,000, the net profit was \$20,198,914, or \$3.60 per share of common stock, based on the present number of shares. The Federal surtax of \$1,650,000 is the penalty imposed on the Company and its stockholders because of its advisable, conservative dividend policy.

Net sales for the year were \$414,090,000, an increase of \$52,790,000, or 14.6% over the 1936 sales. Reflecting the general economic situation, sales

during the early part of the year were substantially greater than those of the previous period, but as the year progressed, the degree of improvement declined rapidly.

Operating expenses increased proportionately more than sales, with salaries and wages of \$55,500,000, representing an increase of 23%, constituting the largest item of expense and showing the greatest increase. The Company's tax burden, which continued to increase, was \$10,070,000 for the year, compared with \$7,670,000 for the preceding year. These taxes, which were equivalent to more than one-half of the net profit, represented \$1.92 per share of common stock. They in some part reflect the continuing assaults on multiple store operations through the device of tax penalties. The object seems to be the injury or perhaps the destruction of this economic form of distribution. Taxes of this nature, which are now imposed by thirty states, are not in our opinion levied because of demands from the public, which indicates its substantial satisfaction by a steadily increasing patronage of the economy and efficiency of the larger organizations. The menace of such trends is clearly indicated by the Patman

Bill recently introduced in Congress. Should it become a law, the annual tax it would impose on Montgomery Ward, as measured by the year just closed, would amount to more than \$17,600,000.

Early in the year, anticipating a decline in business activity, the Company adopted a program of reducing merchandise inventories and commitments, with the result that despite the larger volume of sales during the year, inventories were nearly \$10,000,000 lower on January 31, 1938, than at the end of the previous fiscal year. The same conservative policy was carried out with respect to the expansion in number of retail outlets. With few exceptions, only those stores for which the Company was then committed were completed and opened.

The economic outlook at the present time is unfavorable, and it appears reasonable to anticipate that the Company's business during the coming year will be less satisfactory.

Respectfully submitted,

SEWELL L. AVERY,

*President*

**Montgomery Ward &  
and SUB  
Consolidated Balance S**

**ASSETS**

**Current Assets:**

Cash (less treasurer's drafts outstanding).....	\$ 18,515,250.97
<b>Receivables—</b>	
Customers' time-payment accounts (average terms eight months, approximately \$3,600,000 maturing after one year).....	\$ 60,077,575.56
Customers' charge and other accounts...	2,280,083.01
Due from suppliers, claims receivable, etc.	<u>2,017,540.57</u>
	<u>\$ 64,375,199.14</u>
Less — Reserves for doubtful accounts, collection expense, etc.....	7,021,430.35
Merchandise inventories; quantities and condition determined by the Company; priced at the lower of cost or market....	<u>57,353,768.79</u>
Total current assets.....	<u>77,361,847.55</u>
	<u>\$ 153,230,867.31</u>

**Investments in Mortgages, Real Estate, etc.**

First mortgage notes and land contracts on homes sold (due in installments).....	\$ 3,170,090.00
Homes held for resale, at cost	<u>4,972,329.80</u>
	<u>\$ 8,142,419.80</u>
Less—Reserves for losses....	<u>1,824,121.81</u>
Investments at cost, less reserves (including \$240,153 U. S. Government securities deposited under self-insurance agreements).....	<u>330,198.55</u>
	<u>6,648,496.54</u>
Prepaid Spring Catalog Costs, Paper Stock, Supplies, Insurance, etc. ....	6,412,777.25

**Fixed Assets** (at cost, less depreciation reserves):

Land.....	\$ 6,274,763.12
Buildings.....	\$ 33,584,444.95
Fixtures and equipment.....	<u>24,812,637.18</u>
	<u>\$ 58,397,082.13</u>
Less—Reserves for depreciation	<u>22,412,325.78</u>
Leasehold improvements (less amortization)....	<u>35,984,756.35</u>
	<u>4,637,082.56</u>
	<u>46,896,602.03</u>
	<u>\$ 213,188,743.13</u>

# & Co., Incorporated

SIDIARY

heet—January 31, 1938

## LIABILITIES

### Current Liabilities:

Accounts payable.....	\$ 9,568,264.78
Due customers.....	<u>2,362,037.44</u>
Accrued expenses and taxes—	
Salaries, wages, extra compensation, other operating expenses, etc.....	\$ 6,641,693.85
Personal property, real estate and sundry taxes.....	2,763,949.29
Federal income tax and surtax (subject to final determination by Treasury Department)	<u>6,339,956.93</u>
Total current liabilities.....	\$ 27,675,902.29
Reserve for Self-insurance.....	1,087,136.83

### Capital Stock and Surplus:

Capital stock—

Authorized—

Class "A"—205,000 shares of no  
par value, \$7 per share cumulative  
dividends, non-callable and entitled  
in liquidation to \$100 per share

Common—6,000,000 shares of no par  
value

Issued (stated value)—

    Class "A"—205,000 shares}..... \$ 149,288,340.08  
    Common—5,217,147 shares}

Earned surplus (see accompanying summary)..... 35,390,040.43  
..... \$ 184,678,380.51

Less—Treasury stock—

    Class "A"—3,446 shares..... 252,676.50      184,425,704.01  
..... \$ 213,188,743.13

# Montgomery Ward & Co., Incorporated

COMPARATIVE CONSOLIDATED INCOME ACCOUNT  
FOR THE YEARS ENDED JANUARY 31, 1938 AND 1937

	<u>Year Ended January 31</u>	
	<u>1938</u>	<u>1937</u>
Net sales.....	<u>\$ 414,090,544.00</u>	<u>\$ 361,297,059.00</u>
Deduct—		
Cost of goods sold (including write-downs of inventories and adjustment of merchandise commitments to the lower of cost or market), selling and general expenses, and all taxes other than income taxes.....	<u>\$ 385,737,299.82</u>	<u>\$ 332,914,247.05</u>
Depreciation of fixed properties.....	<u>3,307,836.81</u>	<u>3,199,092.41</u>
Amortization of leasehold improvements...	<u>258,518.55</u>	<u>273,247.83</u>
	<u><u>\$ 389,303,655.18</u></u>	<u><u>\$ 336,386,587.29</u></u>
Net operating profit.....	<u><u>\$ 24,786,888.82</u></u>	<u><u>\$ 24,910,471.71</u></u>
Other income—		
Interest earned on mortgages and land contracts and rentals on homes held for resale, less direct expense applicable thereto.....	<u>\$ 312,123.05</u>	<u>\$ 265,975.63</u>
Interest earned on securities, profit on securities sold, etc.....	<u>11,016.86</u>	<u>22,466.79</u>
	<u><u>\$ 323,139.91</u></u>	<u><u>\$ 288,442.42</u></u>
Net profit before Federal and state income taxes.....	<u>\$ 25,110,028.73</u>	<u>\$ 25,198,914.13</u>
Provision for Federal and state income taxes.	<u>4,250,000.00</u>	<u>4,600,000.00</u>
Net profit before Federal surtax.....	<u>\$ 20,860,028.73</u>	<u>\$ 20,598,914.13</u>
Provision for Federal surtax on undistributed profits.....	<u>1,650,000.00</u>	<u>400,000.00</u>
Net profit carried to surplus.....	<u><u>\$ 19,210,028.73</u></u>	<u><u>\$ 20,198,914.13</u></u>

## RECORD OF ANNUAL NET SALES

1937-8.....	<u>\$ 414,090,544</u>	1932-3 (13 months)...	<u>\$ 176,488,690</u>
1936-7.....	<u>361,297,059</u>	1931.....	<u>200,400,193</u>
1935-6.....	<u>293,042,357</u>	1930.....	<u>249,097,223</u>
1934-5.....	<u>249,805,721</u>	1929.....	<u>267,325,503</u>
1933-4.....	<u>187,632,543</u>	1928.....	<u>214,350,446</u>

# Montgomery Ward & Co., Incorporated

## CONSOLIDATED EARNED SURPLUS ACCOUNT FOR THE YEAR ENDED JANUARY 31, 1938

Balance January 31, 1937.....	\$ 28,012,674.20
Net profit for the year ended January 31, 1938.....	<u>19,210,028.73</u>
Total.....	\$ 47,222,702.93
Deduct—	
Dividends on Class "A" stock—\$7.00 per share.....	\$ 1,410,878.00
Dividends on common stock—\$2.00 per share.....	<u>10,421,784.50</u>
Balance January 31, 1938.....	<u>\$ 35,390,040.43</u>

## SUMMARY OF RESERVE FOR SELF-INSURANCE FOR THE YEAR ENDED JANUARY 31, 1938

Balance January 31, 1937.....	\$ 1,004,359.22
Add—Provision made by charges to income account.....	<u>359,097.86</u>
	\$ 1,363,457.08
Deduct—Self-insured losses incurred.....	
Balance January 31, 1938.....	<u>\$ 1,087,136.83</u>

*To the Board of Directors,*

*Montgomery Ward & Co., Incorporated:*

We have made an examination of the consolidated balance sheet of MONTGOMERY WARD & CO., INCORPORATED, AND SUBSIDIARY as at January 31, 1938, and of the statements of consolidated income and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of income and earned surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at January 31, 1938, and the results of their operations for the year ended that date.

Chicago, Illinois, March 10, 1938.

ARTHUR ANDERSEN & CO.

# Montgomery Ward & Co., Incorporated

## COMPARISON OF CONSOLIDATED BALANCE SHEETS AS AT JANUARY 31, 1938 AND 1937

	<i>January 31</i>	
	<i>1938</i>	<i>1937</i>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash.....	\$ 18,515,250.97	\$ 17,130,892.06
Receivables, less reserves.....	57,353,768.79	44,355,143.10
Merchandise inventories.....	<u>77,361,847.55</u>	<u>87,174,188.20</u>
Total current assets.....	<u>\$ 153,230,867.31</u>	<u>\$ 148,660,223.36</u>
<b>Investments in Mortgages, Real Estate, etc.</b> .....		
Prepaid Catalog Costs and Expenses .....	\$ 6,648,496.54	\$ 7,257,670.07
Fixed Assets, Less Depreciation Reserves...	<u>6,412,777.25</u>	<u>5,912,666.46</u>
	<u>\$ 46,896,602.03</u>	<u>\$ 44,851,570.02</u>
	<u><u>\$ 213,188,743.13</u></u>	<u><u>\$ 206,682,129.91</u></u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b> .....		
Reserve for Self-insurance.....	\$ 27,675,902.29	\$ 29,885,832.91
1,087,136.83		1,004,359.22
<b>Capital Stock and Surplus:</b>		
Capital stock issued (stated value).....	149,288,340.08	147,546,900.08
Less—Treasury stock.....	252,676.50	252,676.50
Received on installment subscriptions.....	—	485,040.00
Earned surplus.....	<u>35,390,040.43</u>	<u>28,012,674.20</u>
	<u><u>\$ 213,188,743.13</u></u>	<u><u>\$ 206,682,129.91</u></u>
<hr/> <hr/> <hr/>		
Net Working Capital.....	\$ 125,554,965.02	\$ 118,774,390.45
<b>Ratio of Current Assets to Current Liabilities</b> .....		
	<u>5.54 to 1</u>	<u>4.97 to 1</u>

# Montgomery Ward & Co., Incorporated

## DIRECTORS

SEWELL L. AVERY, *Chairman*

DAVID A. CRAWFORD  
HARRY P. DAVISON  
PERCY B. ECKHART  
RAYMOND H. FOGLER  
FRANK M. FOLSOM

CHARLES F. GLORE  
D. R. McLENNAN  
SILAS H. STRAWN  
JAMES W. THORNE  
GEORGE W. VAUGHT

## OFFICERS

SEWELL L. AVERY.....President  
SILAS H. STRAWN.....Chairman, Executive Committee  
RAYMOND H. FOGLER.....Vice-President  
FRANK M. FOLSOM.....Vice-President  
CHARLES W. HARRIS.....Vice-President  
HOWARD W. JORDAN.....Vice-President  
GEORGE W. VAUGHT.....Treasurer  
ALBERT T. HUIZINGA.....Assistant Treasurer  
ROBERT S. SMITH.....Assistant Treasurer  
STUART S. BALL.....Secretary  
CHARLES B. FULLERTON.....Assistant Secretary

### *Transfer Agents*

MONTGOMERY WARD & CO., INCORPORATED, CHICAGO, ILL.  
MONTGOMERY WARD & CO., INCORPORATED, NEW YORK, N. Y.

### *Registrars*

THE FIRST NATIONAL BANK OF CHICAGO, CHICAGO, ILL.  
BANKERS TRUST COMPANY, NEW YORK, N. Y.

